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PUBLIC UTILITIES
COMMISSION

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FILED

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

ORIGINAL

In the Matter of the Application of)
HAWAIIAN BEACHES WATER COMPANY, INC.)
For review and approval of rate increases;)
revised rate schedules.)

DOCKET NO. 2009-0161

**DIVISION OF CONSUMER ADVOCACY'S
DIRECT TESTIMONY, EXHIBITS, AND WORKPAPERS**

Pursuant to the agreed upon Stipulated Regulatory Schedule set forth in the Stipulated Procedural Order submitted for Commission review and approval on October 8, 2009, the Division of Consumer Advocacy hereby submits its **DIRECT TESTIMONY, EXHIBITS, AND WORKPAPERS** in the above docketed matter.

DATED: Honolulu, Hawaii, October 27, 2009.

Respectfully submitted,

By Catherine P. Awakuni
CATHERINE P. AWAKUNI
Executive Director

DIVISION OF CONSUMER ADVOCACY

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DIRECT TESTIMONY AND EXHIBITS

OF

MARCEY CHANG

THE DIVISION OF CONSUMER ADVOCACY

SUBJECT: REVENUE REQUIREMENT AND RESULTING PROPOSED RATES

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DIRECT TESTIMONY OF MARCEY CHANG

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME, POSITION AND PLACE OF EMPLOYMENT.

A. My name is Marcey Chang and I am the Chief Engineer for the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs ("Consumer Advocate").

Q. PLEASE STATE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. Please see Exhibit CA-100.

Q. ARE YOU SPONSORING ANY EXHIBITS AND WORKPAPERS IN THE INSTANT PROCEEDING?

A. Yes, I am sponsoring Exhibits CA-100 to CA-107 and Workpapers CA-WP-103 and CA-WP-107.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will present the results of the Consumer Advocate's analysis of Hawaiian Beaches Water Company, Inc. ("HBWC" or the "Company") request for Commission approval to increase the rates presently charged for water service and proposed rate design.

1 **II. OVERVIEW.**

2 Q. PLEASE PROVIDE A GENERAL BACKGROUND OF THE COMPANY AND
3 ITS SERVICE TERRITORY.

4 A. HBWC is a Hawaii corporation that currently provides water utility service to
5 the service territory that was formerly served by Miller & Lieb Water Co., Inc.
6 ("MLW"). HBWC received its certificate for public convenience ("CPCN")
7 pursuant to Decision and Order No. 23313 filed on March 21, 2007 in Docket
8 No. 2006-0437, which at the same time terminated the CPCN to MLW.

9 The present rates were approved by the Commission in Proposed
10 Decision and Order No. 23423, filed on May 8, 2007, which was adopted by
11 Decision and Order No. 23469 filed on May 31, 2007 and Order No. 23513
12 filed on June 27, 2007, all in Docket No. 2006-0442.

13
14 Q. PLEASE GENERALLY DESCRIBE THE COMPANY'S PROPOSED RATE
15 INCREASE IN THE INSTANT PROCEEDING.

16 A. HBWC is proposing an increase in its annual revenues of \$310,302 or
17 approximately 48.6%¹ with a recovery of its test year expenses and a return
18 on its average test year rate base of 9% based on a 2010 test year.

¹ Application, page 4.

It is important to note that based on a customer's average monthly usage in gallons per month, if granted its requests, HBWC projects the following affect to their monthly charges:

Table No. 1²

Usage Range (gallons per month)	Change in Total Monthly Charges
0 to 1,000	-33.8%
1,001 to 5,000	-2.3%
5,001 to 10,000	50.2%
15,001 to 25,000	178.9%
Over 25,000	384.5%

III. DESCRIPTION OF THE GENERAL REVIEW APPROACH TAKEN BY THE CONSUMER ADVOCATE FOR THE INSTANT PROCEEDING.

Q. PLEASE GENERALLY DESCRIBE THE REVIEW YOU CONDUCTED IN THE INSTANT PROCEEDING.

A. In general I conducted as thorough a review as possible of the Company's request while being sensitive to the timeframe set forth in Act 168 passed by the 2004 Legislature.

² Application, page 7.

1 Q. PLEASE EXPLAIN HOW ACT 168 PASSED BY THE 2004 LEGISLATURE
2 AFFECTED YOUR REVIEW.

3 A. Since HBWC's recorded 2008 operating revenues for the calendar year was
4 \$641,557,³ the Company is considered a "small utility," which rate process is
5 governed by the Act 168 provision. Act 168, passed by the 2004 Legislature,
6 allowed public utility companies whose annual gross revenues are less
7 than \$2 million to receive rate relief under a process that utilizes a standard
8 form application.

9 In order to comply with the statutory requirement of Act 168, the
10 Consumer Advocate focused on the components of the revenue requirement
11 that could have a significant impact on the overall results. This would expedite
12 the Consumer Advocate's review, but still enable the Consumer Advocate to
13 be thorough in its analysis and allow the Commission to issue a proposed
14 decision and order within six months of the filing of the completed application.
15

16 Q. ARE THERE OTHER POLICY MATTERS THAT WERE CONSIDERED FOR
17 THE INSTANT PROCEEDING?

18 A. Yes, it should be noted that the Consumer Advocate's silence on matters that
19 were not addressed in this docket should not be construed to indicate the
20 Consumer Advocate's acceptance of the Company's recommendation. The

³ See Exhibit HBWC 2, Section 4, page 5.

1 Consumer Advocate reserves the right to take issue, if necessary, on matters
2 that may not have been addressed in the instant proceeding in future rate
3 proceedings.
4

5 **IV. RESULT OF MY REVENUE REQUIREMENT ANALYSIS.**

6 Q. WHAT REVENUE REQUIREMENT DOES HBWC REQUEST IN THE
7 INSTANT PROCEEDING AND HOW DOES THAT COMPARE WITH YOUR
8 CALCULATED REVENUE REQUIREMENT FOR THE 2010 TEST YEAR?

9 A. HBWC's total proposed revenue requirement is \$949,434,⁴ which is \$94,350
10 more than the Consumer Advocate's revenue requirement of \$855,084.⁵ As
11 shown on Exhibit HBWC 6, line 7, column 3, HBWC's request is based on
12 a 9.0% return on rate base and represents a 48.6% overall increase.⁶

13 Based on the Consumer Advocate's analysis, the recommended overall
14 increase in revenue requirements represents a 33.8% increase in revenues at
15 present rates. This recommendation will allow HBWC an opportunity to earn
16 an 8.1% return on rate base.⁷
17

4 See Exhibit HBWC 6, line 7, column 3.

5 CA-101.

6 Application, page 4.

7 CA-101.

1 **V. OPERATING REVENUES.**

2 Q. WHAT ARE THE CURRENT SOURCES OF REVENUES FOR HBWC'S
3 WATER OPERATION?

4 A. HBWC currently charges a flat monthly rate of \$48.06 for water service. The
5 flat monthly rate is adjusted based on electric power adjustment clause shown
6 on Exhibit HBWC 4, page 2.

7
8 Q. PLEASE IDENTIFY THE SOURCES OF REVENUES THAT THE COMPANY
9 IS PLANNING TO COLLECT IN THE INSTANT APPLICATION.

10 A. In the instant application, HBWC is planning to collect monthly revenues from:
11 (1) a flat rate; and (2) a water usage charge, which the Company is proposing
12 to be adjusted for electric power cost.

13
14 **A. CUSTOMER COUNT.**

15 Q. WHAT IS THE COMPANY FORECASTING FOR ITS CUSTOMER COUNT
16 FOR THE TEST YEAR?

17 A. The Company forecasts customer count of 1,105 at December 31, 2010 with
18 an average customer count of 1,103 for the test year.

19

1 Q. HOW DID HBWC DETERMINE THE CUSTOMER COUNT FOR THE TEST
2 YEAR?

3 A. *In its application, the Company started with the actual number of customers at*
4 *June 30, 2009 and included five additional new customers it believes will*
5 *require service from July 1, 2009 through December 31, 2010.*
6

7 Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S
8 PROJECTED CUSTOMER COUNT FOR THE TEST YEAR?

9 A. After analyzing the data provided in the record (e.g., the customer water usage
10 data provided in Confidential Workpaper 11.1 and the response to CA-IR-9),
11 as well as evaluating information from real estate websites, and considering
12 the current economic downturn, I concluded that the Company's customer
13 count for the test year appears to be reasonable.
14

15 **B. WATER USAGE.**

16 Q. WHAT IS THE COMPANY'S FORECASTED AVERAGE MONTHLY WATER
17 USAGE FOR THE TEST YEAR?

18 A. The Company's forecasted monthly water usage for the test year is
19 approximately 7,918,000 gallons as shown on line 15 of Exhibit HBWC 11.

1 Q. PLEASE DESCRIBE HOW THE COMPANY ESTIMATED THE AVERAGE
2 MONTHLY WATER USAGE.

3 A. The Company's total average monthly water usage is based on the actual
4 water usage for each of its customers for the months March 2009 through
5 July 2009.⁸

6
7 Q. DID THE COMPANY EXPLAIN WHY IT BELIEVES USING THE ACTUAL
8 WATER USAGE FROM MARCH THROUGH JUNE 2009 IS REASONABLE?

9 A. Yes. As discussed by Mr. O'Brien on page 10 of Exhibit HBWC-T-100, HBWC
10 began reading meters in June 2008. Mr. O'Brien states that:

11 During the early months, there were many adjustments needed
12 to the meters and the meter reading process. The Company
13 believes that readings for the months beginning at March 2009
14 provide a reasonable starting point for the monthly water usage
15 for the customers and. . . the four months from March to June
16 2009 have been used as the basis for the usage rates in this
17 proceeding.⁹
18
19

⁸ Application, Exhibit HBWC-T-100, page 11.

⁹ Application, Exhibit HBWC-T-100, pages 10 and 11.

1 Q. DO YOU BELIEVE THAT IT IS REASONABLE TO LIMIT THE WATER DATA
2 FROM MARCH THROUGH JUNE 2009 TO DETERMINE THE TEST YEAR
3 WATER CONSUMPTION?

4 A. I have concerns with limiting the water data since the utilization of only four
5 months data does not take into account the seasonal changes as it relates to
6 the rain levels. Typically during the drier summer months, water use is higher
7 for watering of plants and less during the wetter winter months. Thus, relying
8 on only certain months from March through June may not be a reasonable
9 basis for developing normalized estimates since it omits the usage during the
10 July through October, which tends to represent high usage periods.
11 In addition, the March through June period also excludes November
12 through February, which are months that tend to represent lower usage.
13 The Consumer Advocate has generally recommended that, at a minimum, a
14 full, unbroken 12 month period should be considered when analyzing sales of
15 any type of commodity.

16
17 Q. PLEASE DISCUSS YOUR ASSESSMENT OF THE ACTUAL WATER USAGE
18 DATA FROM JULY 2008 THROUGH JUNE 2009 PROVIDED IN THE
19 APPLICATION.

20 A. The following is my general assessment of the water usage data provided by
21 the Company:

- 1 • It does appear that several of the meter readings conducted in the early
2 months of the meter reading process are unusually high (e.g., account
3 ██████████ (December 2008), account ██████████ (July 2008)). For the
4 most part, however, the meter readings from July 2008 through June
5 2009 do not have these unusually high readings and can be used to
6 determine the test year water usage.
- 7 • The water consumption of several customer accounts appear to
8 decrease significantly, which could be related to the repair of leaks.

9

10 Q. BASED ON YOUR ASSESSMENT, WHAT ARE YOU PROPOSING FOR THE
11 TEST YEAR WATER CONSUMPTION?

12 A. I am proposing to utilize the meter readings from October 2008 through
13 September 2009 to determine an average monthly water consumption for
14 each customer. I believe that the data from this timeframe will take into
15 account: 1) the different rain levels throughout a year's time; and 2) the recent
16 customer repairs to leaks.

17 As a result of my analysis, I am proposing a water consumption for the
18 test year of approximately 9,722,300 gallons per month.¹⁰

¹⁰ CA-107.

1 Q. DOES THE USE OF THE OCTOBER 2008 THROUGH SEPTEMBER 2009
2 METER READINGS, ADDRESS YOUR CONCERNS TO DETERMINE THE
3 WATER CONSUMPTION FOR THE TEST YEAR?

4 A. No, not entirely. Although I am utilizing a greater data set than the Company, I
5 am still not entirely comfortable with the use of only one year of meter reading
6 data. With only a year of meter reading data there is no other year in which to
7 compare this information to determine whether the timeframe of October 2008
8 through September 2009 is reflective of the "normal" usage of the customers.
9 Additionally, since the meters were installed recently, the reliability of the data
10 for normalization purposes is somewhat suspect. However, I recognize that
11 the Company foresees that several of its customers are in the process of
12 repairing leaks associated with their pipes and that the Company plans to file
13 another rate application based on additional water consumption data in the
14 next two years. As such, I believe that the use of the water consumption data
15 from October 2008 through September 2009 is the most reasonable at this
16 time.

17 Therefore, I will rely on the average estimate of 1,103 customers for the
18 test year and the average monthly usage of 9,722.3 thousand gallons
19 per month for those customers to derive my test year estimates of revenues.
20 Using these factors, my estimated test year revenues at present rates total
21 \$639,120, which is comprised of \$636,120 of flat rate charges and \$3,000 of
22 other revenues.

1 VI. OPERATING EXPENSES.

2 Q. WHAT AMOUNT OF OPERATING EXPENSES DOES HBWC PROJECT
3 FOR THE 2010 TEST YEAR?

4 A. As shown on Exhibit HBWC 6, the Company projects \$584,627 of operating
5 expenses at present rates.
6

7 Q. WHAT IS THE CONSUMER ADVOCATE'S RECOMMENDED TEST YEAR
8 OPERATING EXPENSE PROJECTION?

9 A. The Consumer Advocate's test year Operating Expense projection
10 is \$552,858, which is \$31,769 less than HBWC's projection. The basis for the
11 lower projection will be discussed in the following sections of this portion of my
12 testimony.
13

14 Q. PLEASE EXPLAIN THE ANALYTICAL APPROACH TAKEN TO REVIEW THE
15 REASONABLENESS OF HBWC'S TEST YEAR PROJECTION.

16 A. I first identified the expenses that comprised a significant portion of the total
17 Operating Expenses for the test year as shown below.

Table No. 2

	Exhibit HBWC 6	% of Total Operating Expenses
Salaries & Wages and Related Payroll Taxes and Employee Benefits	\$ 285,423	48.8%
Electricity Expense	\$ 104,400	17.8%
Rate Case expense	\$ 96,000	16.4%
Subtotal	\$ 485,823	83.1%
Insurance	\$ 31,604	5.4%
Office Supplies Expense	\$ 23,400	4.0%
Auto & Truck Expense	\$ 15,000	2.6%
Accounting	\$ 14,000	2.4%
Subtotal	\$ 569,827	97.5%
Total	\$ 584,627	100.0%

As shown in the above table, focusing on the test year Salaries and Wages and related payroll taxes and employee benefits, electricity expense and rate case expense represents 83.1% of the total operations expense and would provide a quick assessment of the reasonableness of the Company's test year operating expense projections.

A. ELECTRICITY EXPENSE.

Q. WHAT ARE THE CRITICAL FACTORS TO CONSIDER IN DETERMINING THE TEST YEAR ELECTRICITY EXPENSE?

A. As noted above, the electricity expense is based on: (1) the total kWhs used in the Company's operations multiplied by (2) the price per kWh charged by Hawaii Electric Light Company, Inc. ("HELCO"). Thus, to determine the test year electricity expense, one must first determine the amount of kWhs that will

1 be required to pump and deliver the water to HBWC's customers. Then, one
2 must determine the cost that HELCO charges for the kWhs used.

3
4 Q. HOW DID HBWC DETERMINE THE TEST YEAR ELECTRICITY EXPENSE?

5 A. As shown on Exhibit HBWC 10-3 the test year electricity expense appears to
6 have been calculated using the Company's average monthly kWh of
7 30,000 kWh for the well pump multiplied by the average kWh rate for the
8 months of January through June 2009.

9
10 Q. DID THE COMPANY USE AN AVERAGE OF THE HISTORICAL DATA
11 SIMILAR TO THE ELECTRICITY RATE TO DETERMINE ITS AVERAGE
12 MONTHLY KWH?

13 A. No, it does not appear that the Company used a strict average of the historical
14 data to determine the electricity usage. Although, the Company calculated a
15 monthly kWh average for January through June 2009 of 33,852 kWh, the
16 Company estimated the monthly kWh usage for the test year as 30,000 kWh.

17 On Exhibit HBWC-T-100, page 30, Mr. O'Brien identified several
18 concerns with using the historical data, which is summarized below:

- 19 • The average electricity usage has been decreasing from 2007 due to
20 the decrease in water consumption as the Company and its customers
21 have been addressing leakages in the system.

- 1 • There was a six-week period in April and May 2009 when a generator
2 was used as the new electric facilities and well were completed.
- 3 • There will be some efficiency associated with the operation of the new
4 well that may decrease future electricity usage.

5
6 Q. DO YOU HAVE ANY ADJUSTMENTS TO THE COMPANY'S ELECTRICITY
7 EXPENSE?

8 A. No. Due to the factors identified by Mr. O'Brien above, I recognize that it
9 would be difficult to determine the test year electricity usage based solely on
10 the historical data. As mentioned in my discussion of the forecasted sales,
11 there is some concern with limiting the data set that might exclude months
12 where usage may be higher (which would tend to increase electricity usage)
13 as well as months where usage may be lower (which would tend to decrease
14 electricity usage). However, as part of my analysis, I compared the
15 Company's estimated kWh usage with the electricity usage for the months of
16 July through September 2009, which resulted in an average of 30,352 kWh.¹¹
17 As a result, the Company's estimate does not appear unreasonable.

¹¹ As shown on Attachment CA-IR-16b., the electricity usage for July through September 2009 is 33,427 kWh, 27,805 kWh, and 29,823 kWh, respectively.

**B. SALARIES AND WAGES AND RELATED PAYROLL TAXES AND
BENEFITS EXPENSES.**

Q. HOW DID HBWC DETERMINE THE TEST YEAR SALARIES AND WAGES?

A. The test year Salaries and Wages expense is based on the annual salaries and hourly wages of HBWC's six employees.

Q. WHAT IS YOUR GENERAL ASSESSMENT OF THE COMPANY'S TEST
YEAR SALARIES AND WAGES?

A. In general, the Company's test year salaries and wages appear to be reasonable as the levels of compensation appear to be comparable to the compensation of other Hawaii workers in their occupational class. As shown below, I compared the Company's compensation of salaries and wages to the United States Bureau of Labor Statistics Occupational Employment Statistics ("OES") for May 2008 for several occupational classes.

Table No. 3¹²

HBWC Position Identified on CA-WP-103	OES Occupation Code	OES Occupation Description	OES Annual Mean Wage
Line 1	111021	General and Operations Managers	\$ 96,070
Line 2	511011	First-Line Supervisors/Managers of Production and Operating Workers	\$ 52,460
Line 3	518031	Water and Liquid Waste Treatment Plant and System Operators	\$ 42,080
Line 4	434171	Receptionists and Information Clerks	\$ 28,200
Lines 5 and 6	519198	Helpers-Production Workers	\$ 23,000

The OES annual mean wage appears comparable to the compensation levels for the HBWC employees.

Q. BASED ON YOUR ASSESSMENT ARE YOU PROPOSING ANY ADJUSTMENTS TO THE COMPANY'S TEST YEAR SALARIES AND WAGES EXPENSE?

A. Yes. Although the employee compensations appear to be comparable, based on the current economic conditions, I do not believe that it is reasonable to allow a pay increase in January 1, 2010. Although the Company asserts that the employees have not received a pay increase for the last four years, to

¹² OES information from the website, http://www.bls.gov/oes/2008/may/naics4_221300.htm, referencing the Occupation Code and "Create Customized Tables."

1 allow two pay increases on July 1, 2009 and January 1, 2010 in such a short
2 timeframe in this economic downturn does not appear to be reasonable.
3

4 Q. DID YOU CONSIDER DISALLOWING THE FIRST PAY INCREASE IN
5 JULY 1, 2009?

6 A. Yes, I did. I did not make such an adjustment since the Company asserts that
7 its employees have not had an increase in wages for the last four years.¹³ As
8 the Company's employee compensations appear comparable to the
9 compensations of other Hawaii workers, it appeared reasonable to allow the
10 first pay increase in July 2009. The result is an estimate of \$222,477 for
11 salaries and wages and \$57,377 for employee benefits and payroll taxes,
12 which total \$279,854 for the test year.
13

14 **C. RATE CASE AMORTIZATION EXPENSE.**

15 Q. WHAT DOES RATE CASE EXPENSE REPRESENT?

16 A. Rate case expense represents the amortization of costs that are expected to
17 be incurred by HBWC to process the instant rate application. As shown on
18 Exhibit HBWC 10.11, HBWC estimates a total cost of \$192,000 to be
19 amortized over a two-year period for a test year expense of \$96,000.
20

¹³ Response to CA-IR-20.

1 Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO HBWC'S RATE CASE
2 EXPENSE FOR THE TEST YEAR?

3 A. Yes, I propose the following adjustments:

- 4 • Reduce the expenses associated with the "Preparation and Filing"
5 phase to \$64,600 to reflect the actual costs incurred for this phase.
- 6 • Remove the costs associated with travel and other non-labor for the
7 "Discovery and Settlement" phase.
- 8 • Remove the costs associated with the "Hearings and Briefing" phase.

9
10 Q. WHY ARE YOU PROPOSING THE ADJUSTMENTS ABOVE?

11 A. First, as indicated in response to CA-IR-17(a), HBWC asserts that the actual
12 costs to prepare and file the instant application amounted to
13 approximately \$64,600, which is lower than HBWC's estimate of \$72,000.
14 Since this phase is complete, the Consumer Advocate proposes to adjust the
15 test year rate case expense to reflect the actual costs incurred to prepare and
16 file the instant application.

17 Second, as travel and other non-labor costs were not necessary for the
18 "Preparation and Filing" phase, I do not believe that these costs will be
19 necessary in the "Discovery and Settlement" phase. In reviewing the invoices
20 provided in response to CA-IR-17, the work associated with the "Preparation
21 and Filing" phase of the proceeding can be done through telephone
22 conference calls and electronic media. Similarly for "Discovery and

1 Settlement," much of the communication can be conducted in this manner,
2 thus eliminating the need to travel in order to respond to discovery.

3 Lastly, Act 168, passed in the 2004 Legislative Session, allowed utilities
4 like HBWC an opportunity to receive a proposed decision and order on their
5 rate application within six months of the filing date. An evidentiary hearing
6 would only be required if the Company did not accept the proposed decision
7 and order.

8 As the Commission noted in the proposed Decision and Order
9 No. 21885 filed on June 22, 2005 in Docket No. 04-0373

10 The commission reiterates that, at this juncture, there is
11 no right to a contested case hearing under
12 HRS § 269-16(f) . . . only if one (1) or both Parties object to the
13 proposed Decision and Order, or if the Parties waive the right to
14 the commission's issuance of a proposed Decision and Order
15 within six (6) months of Waikoloa Wastewater's complete
16 Application, is a contested case hearing contemplated under
17 HRS § 269-16(f).

18
19 Consistent with the principle of expeditiously issuing this
20 Proposed Decision and Order under Act 168, the commission
21 disallows Waikoloa Wastewater's Phase 3 costs of \$24,800 for
22 an evidentiary hearing and post-hearing briefing.

23
24 Based on the above, the costs associated with the evidentiary hearing and
25 preparation of post hearing briefs should be removed from the test year rate
26 case expense and resulting amortization. If the Company ultimately objects to
27 the proposed Decision and Order, a contested case schedule will be
28 established and the projected rate case expense can then be adjusted to
29 include some level of costs for the hearing and briefing phase. Until such time

1 as HBWC objects to the Commission's proposed Decision and Order, the
2 costs associated with the hearings and briefing phase should be removed and
3 the costs are incurred.

4
5 **1. Period over which rate case expenses will be amortized.**

6 Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE AMORTIZATION PERIOD.

7 A. The amortization period is important because it helps to normalize the test
8 year rate case expense by determining the appropriate amount of annual rate
9 case expense to reflect in rates. If the amortization period is set at a shorter
10 duration than the actual period between rate cases, the Company may
11 unreasonably recover more rate case expense than the levels reflected in the
12 test year revenue requirement. If the period is longer than the actual interval
13 between rate filings, the Company may not have an opportunity to recover the
14 rate case expenses. Therefore, it is important to use an amortization period
15 that best reflects the time period over which the rates, established in the
16 instant proceeding, will remain in effect.

17
18 Q. OVER WHAT PERIOD DOES HBWC RECOMMEND THE RATE COSTS BE
19 AMORTIZED?

20 A. HBWC proposes to utilize a two-year amortization period. The Consumer
21 Advocate will not take issue with the proposed amortization period that HBWC
22 proposes to return with its next rate increase application, as such a period will

1 allow the Company to record additional customer water consumption data as
2 discussed above.

3 The result of my adjustments and adoption of the two-year amortization
4 period is a test year estimate of \$69,800.

5
6 **VII. RATE BASE.**

7 Q. WHAT IS RATE BASE?

8 A. Rate base generally represents the net balance of shareholder provided
9 investments such as net plant in service and ratepayer provided investments
10 such as contributions in aid of construction.

11
12 Q. ARE YOU PROPOSING ADJUSTMENTS TO HBWC'S TEST YEAR RATE
13 BASE COMPONENTS?

14 A. Yes, I propose adjustments to the following areas as provided on various
15 scheduled labeled as CA-105, pages 1 through 10:

- 16 1. Accumulated depreciation and depreciation expense;
- 17 2. Accumulated deferred income tax;
- 18 3. Contributions in aid of construction;
- 19 4. Hawaii Capital Goods Excise Tax Credit; and
- 20 5. Working capital.

21 Each adjustment will be addressed in the appropriate section of my testimony.

1 **A. PLANT IN SERVICE.**

2 Q. PLEASE EXPLAIN WHY YOU ARE DISCUSSING THE COMPANY'S
3 PLANT-IN-SERVICE, EVEN THOUGH YOU ARE NOT PROPOSING ANY
4 ADJUSTMENTS IN THIS AREA.

5 A. It is important to note that plant-in-service generally represents the utility
6 assets purchased with shareholder funds, otherwise referred to as shareholder
7 investments, or through contributions from sources other than shareholder
8 funds. For rate setting purposes, shareholders are allowed both a return of
9 their investment through depreciation expense and a return on their
10 investment, which is computed by multiplying a utility's rate base by a
11 predetermined cost of capital rate. Rates are then set to allow shareholders
12 an opportunity to recover their investment, as well as a return on their
13 investment. If plant-in-service is overstated, ratepayers will be burdened with
14 excessive utility rates. Conversely, if plant-in-service is understated, rates will
15 be understated and shareholders may not be provided with an opportunity to
16 recover their investment as well as a fair return on their investment.

17 In the instant proceeding, the Company's average plant-in-service
18 balance for the test year is approximately \$1,894,848.¹⁴

14 Exhibit HBWC 9.

1 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF HBWC'S WATER SYSTEM.

2 A. As discussed in Exhibit HBWC 1 of the application, the water system consists
3 of two well, pumps, storage tanks, transmission and distribution mains, an
4 office building, vehicles, and appropriate replacement equipment.

5 The first well was installed in 1964, Well #3185-01 and is an 8-inch well
6 that is 445 feet deep with a new pump rated at 550 gpm, 100 hp. The second
7 well was completed in 2008 and has a pump rated at 625 gpm, 100 hp.

8 The Company has two storage tanks located at the well sites with a
9 total storage capacity of 430,000 gallons.

10
11 Q. ARE THE COSTS OF THESE ASSETS REFLECTED IN THE TEST YEAR
12 PLANT IN SERVICE BALANCES?

13 A. Yes.

14
15 Q. WHAT IS YOUR GENERAL ASSESSMENT OF THE COMPANY'S PLANT IN
16 SERVICE BALANCE?

17 A. In general, the Company's plant in service balance appears reasonable. I
18 noted that a significant portion of the plant-in-service balance is related to
19 plant items (i.e., new well, pump, storage tank and associated equipment) that
20 were projected to be completed in a 2007 test year in the Company's last rate
21 proceeding, Docket No. 2006-0442). The Company asserts that much of the
22 delay was associated with extensions required by Aqua Engineers, Inc.

1 through its subsidiary Briant Construction, Inc. ("AE-BC") to complete the
2 project.

3 It should also be noted that the Company incurred costs to extend the
4 period covered by a loan for the construction,¹⁵ which was offset by the
5 liquidated damages paid by AE-BC for delays in completing the construction.¹⁶
6

7 **1. Excess Capacity.**

8 Q. DID YOU REVIEW THE COMPANY'S PLANT CAPACITY TO DETERMINE
9 WHETHER THERE IS EXCESS CAPACITY?

10 A. Yes.
11

12 Q. WHAT IS EXCESS CAPACITY?

13 A. For purposes of my testimony, I am using the term "excess capacity" to
14 represent the remaining available capacity in the plant facility that is not
15 expected to be used and useful to provide utility services in the test year. The
16 application of an excess capacity factor is reasonable, even if the plant item or
17 items may be used to provide service. That is, for small systems, it is
18 generally more efficient and there are economies of scale to add plant in
19 "blocks." In adding plant in this manner, if an excess capacity factor is not

¹⁵ Exhibit HBWC-T-100, pages 22 and 23.

¹⁶ Workpaper HBWC 9.2.

1 applied current customers will be burdened with capacity meant to be
2 available for future customers. Applying an excess capacity factor allows
3 current customers to pay only for the capacity that is necessary to provide
4 utility service to them.

5
6 Q. DID THE COMPANY RECOGNIZE ANY EXCESS CAPACITY ASSOCIATED
7 WITH ITS PLANT FACILITIES IN ITS APPLICATION?

8 A. No, the Company is not proposing an excess capacity factor.

9
10 Q. BASED ON YOUR REVIEW, ARE YOU PROPOSING AN EXCESS
11 CAPACITY FACTOR?

12 A. No, not at this time. Based on my calculations as shown on CA-105, page 10,
13 I am uncertain what level of the Company's plant facilities may not be used
14 and useful during the test year. As shown on CA-105, page 10, it appears that
15 approximately 16.44% of HBWC's well, pumping, water treatment facilities and
16 associated structures may be deemed as excess. This is based on the
17 maximum daily demand of the system in addition to the required fire flow as
18 compared to the capacity of the distribution system as calculated by the
19 County of Hawaii Department of Water.

20 Although I am able to calculate the maximum daily demand, I am
21 uncertain what the required fire flow is for the Company's system. As such, I
22 am recommending that the Company provide the fire flow information to all the

1 Commission and the Consumer Advocate to assess whether there is excess
2 capacity on the Company's system.
3

4 **B. ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE.**

5 Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO THE COMPANY'S
6 DEPRECIATION EXPENSE AND ACCUMULATED DEPRECIATION?

7 A. Yes. I am proposing that the depreciation rate for the new well be adjusted
8 from 0.05 (i.e., 20 years) as shown on Exhibit HBWC 9.4 line 4 to a rate of
9 0.0250 (i.e., 40 years) as was originally estimated in Docket No. 2006-0442.
10

11 Q. DID THE COMPANY EXPLAIN WHY IT REVISED THE DEPRECIATION
12 RATE FOR THE NEW WELL?

13 A. Yes. In response to CA-IR-7, the Company stated that:

14 [It] believes that while the well shaft could last 40 years, the
15 related pumps and other equipment that are included in the
16 \$697,055 asset value will have much shorter lives. Therefore,
17 the Company believes that a composite life of 20 years is
18 reasonable.
19

1 Q. IN LIGHT OF THE COMPANY'S EXPLANATION, PLEASE EXPLAIN WHY
2 YOU ARE PROPOSING TO SET THE DEPRECIATION RATE AS
3 ORIGINALLY ESTIMATED IN DOCKET NO. 2006-0442 FOR THE NEW
4 WELL.

5 A. I am proposing to set the depreciation rate as originally estimated in Docket
6 No. 2006-0442, as I am uncertain how the Company determined the
7 composite life of 20 years. It would seem to be preferable to record the new
8 well and pump and other equipment separately to be depreciated at its
9 appropriate estimated service life. Setting the depreciation life to less than
10 what it is appropriate harms current ratepayers in that it allows the Company
11 to unreasonably recover its costs at an accelerated rate and creates a type of
12 intergenerational inequity.

13
14 **C. ACCUMULATED DEFERRED INCOME TAX.**

15 Q. PLEASE BRIEFLY EXPLAN THE TERM ACCUMULATED DEFERRED
16 INCOME TAX.

17 A. Accumulated deferred income tax ("ADIT") is the difference in income tax
18 liability computed for financial statement purposes versus income tax return
19 purposes. In HBWC's case, ADIT is caused by applying different depreciation
20 methods in determining the depreciation expense for tax versus financial
21 statement purposes. The depreciation method used for financial statement
22 purposes recognizes an equal portion of the total cost of an asset over the life

1 of the asset. In comparison, the income tax depreciation is based on an
2 accelerated method where more depreciation is taken in the early years of an
3 asset's life. The accelerated method results in lower income taxes paid in the
4 early years with more income taxes paid in the later years of an asset's life.

5
6 Q. ARE YOU PROPOSING AN ADJUSTMENT TO HBWC's ADIT FOR
7 THE 2010 TEST YEAR?

8 A. No, not at this time. However, since I am proposing an adjustment to the
9 depreciation rate for the new well, the Company should recalculate the ADIT
10 based on the proposed rate.

11
12 **D. CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") AND**
13 **ACCUMULATED AMORTIZATION FOR CIAC.**

14 Q. WHAT ARE CONTRIBUTIONS IN AID OF CONSTRUCTION?

15 A. CIAC are customer monetary or facility contributions to the Company to help
16 defray the costs incurred to install plant, property and equipment. In the
17 instant proceeding, the Company's CIAC reflects the charges collected for
18 new water service connection as described on Exhibit HBWC 4
19 and Exhibit HBWC 5.

1 Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO THE COMPANY'S CIAC
2 AND ACCUMULATED AMORTIZED CIAC FOR THE TEST YEAR?

3 A. Yes. In response to CA-IR 8, I requested the actual amount of CIAC collected
4 annually for the years 2006 through 2008. I noted that the amount reflected in
5 the response (i.e., \$84,000 collected from July through December 2007
6 and \$27,000 collected in 2008) exceeded the CIAC balance at December 31,
7 2008 as shown on Exhibit HBWC 9.7 (i.e., \$70,500).

8 As such, I recalculated the CIAC and the unamortized CIAC beginning
9 with the December 31, 2006 reflected in "Stipulation of Settlement Agreement
10 in Lieu of Rebuttal Testimonies," filed April 4, 2007 in Docket No. 2006-0442
11 ("Stipulation").
12

13 Q. PLEASE EXPLAIN WHY YOU ARE YOU PROPOSING TO USE THE CIAC
14 AND UNAMORTIZED CIAC BALANCES AT DECEMBER 31, 2006
15 REFLECTED IN THE STIPULATION IN YOUR CALCULATIONS.

16 A. In response to CA-IR-8, the Company noted that it commenced operations
17 from MLW in April 2007 and it does not appear that the Company has the
18 information to recalculate the CIAC readily available. As such, I used the
19 balances agreed to in Stipulation in my calculations.

20 To the extent that the Company has the actual balances at
21 December 31, 2006 and the amount of CIAC collected from January through

1 June 2007 that suggests different balances are reasonable, I will consider
2 revising my adjustment.
3

4 **E. HAWAII CAPITAL GOODS EXCISE TAX CREDIT.**

5 Q. PLEASE EXPLAIN WHAT THE HAWAII CAPITAL GOODS EXCISE TAX
6 CREDIT ("HCGETC") REPRESENTS.

7 A. Pursuant to Hawaii tax laws, entities are able to take a credit for qualifying
8 plant or property upon which excise taxes are applied to certain capital goods.
9

10 Q. PLEASE EXPLAIN WHY AN ADJUSTMENT WAS MADE TO THIS
11 CATEGORY.

12 A. The adjustment I made was to recognize the credit that should have been
13 taken on the well that was installed in 2009. The Company did not reflect a
14 credit for this item and did not explain why no credit should be taken. If the
15 Company can provide evidence that this item is not eligible, I will reconsider
16 this adjustment.
17

18 **F. WORKING CASH.**

19 Q. WHAT IS THE PURPOSE OF INCLUDING WORKING CASH IN
20 DETERMINING A UTILITY'S TEST YEAR REVENUE REQUIREMENT?

21 A. Utilities generally incur costs to provide the regulated service prior to receiving
22 compensation for such service through the bills rendered. Thus, working cash

1 is included in rate base to recognize the amount of money provided by
2 investors to pay the utility's current costs of providing water service, pending
3 receipt of revenues to be received for providing those services.
4

5 Q. IS HBWC PROPOSING TO INCLUDE WORKING CAPITAL AS A
6 COMPONENT OF RATE BASE FOR THE 2010 TEST YEAR?

7 A. Yes. As shown on Exhibit HBWC 8-4, HBWC proposes to include \$55,743 as
8 the working capital requirement to be reflected in the 2010 test year rate base.
9

10 Q. HOW WAS THE COMPANY'S WORKING CASH ESTIMATE FOR
11 THE 2010 TEST YEAR DETERMINED?

12 A. As shown in Exhibit HBWC 8-4, the Company's methodology for computing
13 working cash assumed that the working cash requirements equated
14 to 1/12th of total estimated test year operating expenses.
15

16 Q. HAS THE COMMISSION ALLOWED OTHER WATER UTILITIES TO USE
17 THE 1/12TH FACTOR TO COMPUTE WORKING CAPITAL?

18 A. Yes. This is a commonly accepted methodology employed to determine
19 working cash, especially for utilities such as HBWC that do not generate
20 sufficient revenues to justify incurring the costs of performing a lead/lag study.
21

1 Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO THE COMPANY'S
2 WORKING CASH?

3 A. Yes. I am proposing that my adjustments to the Company's test year
4 operating expenses be reflected in the working cash calculation, but there is
5 no disagreement with the proposed methodology used for this company.
6

7 **VIII. RATE OF RETURN.**

8 Q. HOW IS A UTILITY'S RATE OF RETURN DETERMINED AND WHAT ARE
9 FACTORS CONSIDERED IN DETERMINING THE RATE OF RETURN?

10 A. The rate of return, also referred to as the return on rate base or overall
11 weighted cost of capital is based on: (a) the ratio of debt to equity (i.e., the
12 capital structure); and (b) the cost rates for the debt and equity.
13

14 Q. WHY IS THE RATIO OF DEBT TO EQUITY IN A CAPITAL STRUCTURE
15 IMPORTANT FOR RATEMAKING PURPOSES?

16 A. The ratio of debt to equity is important because the ratio will impact the
17 determination of the weighted cost of capital. Since equity is generally viewed
18 as being riskier than debt, the cost rate for equity is higher than the cost rate
19 for debt or preferred stock. The reason is because the investor is not assured
20 of a return on common equity, unlike debt and preferred stock, which have
21 fixed rates of return. Thus, since equity generally has a higher cost rate than
22 debt, including more equity in a utility's capital structure generally increases

1 the overall weighted cost of capital. On the other hand, a capital structure that
2 is more weighted with debt will generally result in a lower overall weighted cost
3 of capital.

4 Given the above, regulators attempt to reach a balance in the amount
5 of debt to equity reflected in a utility's capital structure for ratemaking purposes
6 to normalize the impacts of a utility's capital structure and avoid having
7 ratepayers pay for a revenue requirement that may not reflect normal
8 conditions under which a public utility should operate.

9
10 Q. WHAT RATE OF RETURN IS HBWC REQUESTING IN THE INSTANT
11 PROCEEDING?

12 A. HBWC proposes to increase the current rates to provide the utility with an
13 opportunity to earn a 9.0% return on rate base.¹⁷

14
15 Q. WHAT IS THE BASIS FOR THE COMPANY'S RECOMMENDED
16 9.0% RETURN ON RATE BASE?

17 A. As discussed in HBWC 12-T-100, page 47, the Company's recommendation is
18 based on:

- 19 • A hypothetical capital structure that consists of 50 percent debt
20 and 50 percent equity; and

¹⁷ See HBWC 6, line 9 and HBWC 12-T-100, page 45.

- Assumed cost rates of 7% for debt and 11% for equity.

In support of the above proposed capital structure and cost rates, Mr. O'Brien states a higher equity ratio is more appropriate for HBWC due to its relatively small size and its negative equity. As such, Mr. O'Brien asserts that HBWC is riskier than the utilities for which the Consumer Advocate relied on to recommend the 8.10% rate of return in Docket No. 2008-0283 (re: Kohala Ranch Water Company ("KRWC") rate proceeding).

Q. DOES THE CONSUMER ADVOCATE HAVE ANY CONCERNS WITH THE ABOVE RECOMMENDATION?

A. Yes. Given the current economic conditions and other market related observations, I am concerned that the Company's requested cost of capital is not reasonable. The cost of capital that is authorized by the Commission must balance a number of factors, including the potential impact on the Company's ratepayers. Thus, the Consumer Advocate supports Mr. Parcell's analysis in Docket No. 2008-0283 in its recommendation of a 8.10% rate of return. As noted in Mr. Parcell's testimony in Docket No. 2008-0283, it is not possible to apply a direct comparison to such companies as HBWC and KRWC as these companies are not publicly-traded. As such, Mr. Parcell analyzed a group of "proxy" companies to determine the cost of common equity. Further, the rate of return should reflect the "normal" conditions under which the utility should

1 operate. The negative equity at which the Company currently carries does not
2 reflect such conditions.

3
4 Q. BASED ON THE ABOVE, WHAT IS THE CONSUMER ADVOCATE'S
5 RECOMMENDED RETURN ON RATE BASE FOR THE INSTANT DOCKET?

6 A. The Consumer Advocate recommends a return on rate base of 8.10%. This
7 factor is based on the cost of capital analysis performed by a cost of capital
8 witness in Docket No. 2008-0283.

9
10 IX. **RATE DESIGN.**

11 Q. WHAT IS RATE DESIGN?

12 A. Generally, rate design is the conversion or translation of the utility's total revenue
13 requirements into a pricing structure designed to collect revenues required to
14 recover the total costs of providing service.

15
16 Q. PLEASE DESCRIBE HBWC'S PROPOSED RATE DESIGN.

17 A. HBWC'S proposed rate design is based on recovering its revenues through
18 flat and volumetric charges. The Company determined the amount of
19 revenues to collect through each charge by assessing the fixed and variable
20 revenue requirement elements as shown on Exhibit HBWC 12.

1 Q. BASED ON YOUR PROPOSED ADJUSTMENTS TO REVENUE
2 REQUIREMENT, ARE YOU PROPOSING ANY ADJUSTMENTS TO THE
3 COMPANY'S RATE DESIGN?

4 A. No, I am not. I appreciate the purpose of initiating the volumetric charge in the
5 instant proceeding in trying to establish rates that will allow each customer to
6 pay its fair share of its water consumption.

7
8 Q. DO YOU HAVE ANY GENERAL CONCERNS WITH THE COMPANY'S
9 RATES?

10 A. Yes, I do. Although I can appreciate the purpose of the volumetric charge,
11 based on both the proposed rates by the Company and Consumer Advocate,
12 I am concerned the costs to many customers will increase substantially
13 (e.g., 108.8% to 384.5% by customers using greater than 10,001 gallons per
14 month based on the Company's proposed rates).

15
16 Q. DO YOU BELIEVE THERE IS AN IMMEDIATE SOLUTION TO YOUR
17 CONCERN?

18 A. No, not at this time. I do not believe that any significant adjustments can be
19 made to the revenue requirement elements to cause a considerable decrease
20 in the rates. As discussed above, I note that the significant revenue
21 requirement elements appear to be reasonable.

1 Further, I noted that as the Company anticipates customers to lower
2 their usage, I am concerned that in the Company's next rate proceeding, there
3 will be less water sales in which to distribute the revenue requirement, causing
4 the rates to increase further.

5 As such, I believe that the Company should provide the costs
6 associated with improving its water system that would facilitate the possibility
7 of allowing the County to be responsible for the system. This would allow the
8 Commission and Consumer Advocate to assess whether it is in the best
9 interest of the ratepayers to have the County of Hawaii be responsible for the
10 water system.

11
12 Q. PLEASE EXPLAIN WHY YOU ARE NOT RECOMMENDING COUNTY
13 INVOLVEMENT AT THIS TIME.

14 A. The primary reason why I am not considering County involvement at this time
15 is that it is my understanding that the Company's system does not meet
16 County standards in that the size of the pipes in its distribution system is too
17 small. To address such a problem, would require significant investment for
18 which I do not believe that ratepayers in this current economic times could
19 bear.

1 Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S
2 RATE DESIGN AT THIS TIME?

3 A. Yes. Due to the short timeframe for my review and current workload of the
4 Consumer Advocate, I was not able to complete my review on establishing
5 tiered volumetric rates. I believe that consistent with the Company's goal to
6 have customers lower their water usage and repair leaks, it is reasonable to
7 establish tiered volumetric rates to further provide an incentive to the high
8 water users. As such, I recommend that the Company and Consumer
9 Advocate continue to review whether tiered volumetric rates are reasonable
10 and if so, the rates for these tiers.

11 While we look forward to continuing working on the development of
12 tiered rates, the results of my various recommended adjustments to the
13 revenues requirements do, however, result in rates that differ from the
14 Company's proposed rates. Those rates are found on CA-107.

15
16 Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS ASSOCIATED WITH
17 THE COMPANY'S RATE FILING?

18 A. Yes. In light of my concerns with the Company's next rate proceeding, I am
19 recommending that the Company file quarterly financial reports and actual
20 customer water usage. Such information will allow the Commission and
21 Consumer Advocate to be prepared for the next filing and to determine if prior
22 action if required, if necessary.

1 In addition, even assuming that all of the Consumer Advocate's
2 recommendations are adopted, the overall impact on rates for each customer
3 will approximate 33% - 34%. As a general rule of thumb, the Consumer
4 Advocate has used a threshold of 25% for purposes of determining when to
5 consider the possibility of rate shock. In those instances when a proposed
6 rate increase exceeds 25%, one possible measure that should be considered
7 is the need to phase-in increases over a reasonable number of steps.

8
9 X. CONCLUSION.

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11 A. Yes. It does.

MARCEY CHANG

Educational Background and Experience

Business Address: 335 Merchant Street
Honolulu, Hawaii 96813

Position: Public Utilities Engineer

Years of Service: Since September 1997

Business Affiliation: Division of Consumer Advocacy,
Department of Commerce and Consumer Affairs,
State of Hawaii

1991-1997 C Tech Services, Inc., Engineer
Telecommunications contracting service

University or College: University of Hawaii, Manoa, Hawaii

Degree: Bachelor of Science in Electrical Engineering

Certification: Registered Professional Electrical Engineer, No. 8950,
State of Hawaii

Previously Testified: I have testified or participated in cases involving electric,
telecommunication, gas, and wastewater.

Hawaiian Beaches Water Company
Revenue Requirements & Rate of Return Summary
Test Year Ending December 31, 2010

Line #	Description	[1] Present Rates	[2] Additional Amount	[3] Revenue At Proposed Rates
1	Flat Rate Month Charges	\$636,120	(\$636,120)	
2	APCAC Revenue	0		0
3	Monthly Customer Charges	0	397,080	397,080
4	Customer Usage Charges	0	455,004	455,004
5				0
6	Other Revenue	3,000		3,000
7	Total Operating Revenues	639,120	215,964	855,084
8	Purchased Electricity	104,400		104,400
9	Salaries & Wages	222,477		222,477
10	Employee Benefits & PR Taxes	57,377		57,377
11	Accounting	14,000		14,000
12	Insurance	31,604		31,604
13	Auto & Truck Expense	15,000		15,000
14	Postage	6,000		6,000
15	Legal & Professional	2,000		2,000
16	Communications	6,400		6,400
17	Office Supplies Expense	23,400		23,400
18	Rate Case Amortization	69,800		69,800
19	Repair & Maintenance	4,400		4,400
20	Bad Debt Expense	0		0
21	Capitalized Non-Payroll Expenses	(4,000)		(4,000)
22				
23	Total O&M Expenses	552,858	0	552,858
24	Taxes Other than Income Taxes	40,808	13,789	54,597
25	Depreciation	100,810		100,810
26	Amortization of CIAC	(12,573)		(12,573)
27	Income Taxes	0	50,873	50,873
28				
29	Total Operating Expenses	681,902	64,662	746,565
30	Operating Income	(\$42,782)	\$151,302	\$108,519
31	Average Rate Base	\$1,339,813	\$0	\$1,339,813
32	Return on Rate Base	-3.19%		8.100%
33	Target Rate of Return (ROR)	8.10%		
34	Increase,in ROR	11.29%		
35	Increase in Net Operating Income	\$151,307		
36	Gross Revenue Conversion Factor	1.42740		
37	Revenue Increase	\$215,976		
38	Percent Revenue Increase		33.793%	

Hawaiian Beaches Water Company
Revenue Requirements Support
Test Year Ending December 31, 2010

Line #	Description	[1]	[2]
		Amount	Amount
1	Gross Revenue Factor		
2	Additional Revenue		1.000000
3	Less:		
4	Bad Debts	0.000000	
5	Public Service Company tax	0.058850	
6	PUC Fee	0.005000	
7	Franchise	0.000000	0.063850
8	Subject to Income Tax		
9	Less:		0.936150
10	State Income Tax	0.050822	
11	Federal Income Tax	0.200821	
12		0.251643	0.235576
13	Remaining for Net Income		0.700574
14	Expense for each \$1 of Revenue		0.299426
15	Factor for Moving Rate Base		
16	=	(1-Bad Debt%-Revenue Taxes-Income tax on Addl. Revenue)	
17		0.7005744056	
18	Revenue Factor	1.427400133	

Hawaiian Beaches Water Company
Income Tax Expense
Test Year Ending December 31, 2010

Line #	Description	{ 1 } Tax Rates	{ 2 } Present Rates	{ 3 } Revenue Increase	{ 4 } Proposed Rates	{ 5 } Income Taxes		
						Present Rates	Revenue Increase	Proposed Rates
1	Total Revenues					639,120	215,964	855,084
2	Total Operations & Maintenance Expenses					552,858	0	552,858
3	Depreciation					100,810	0	100,810
4	Amortization of CIAC					(12,573)	0	(12,573)
5	Taxes Other than Income Taxes					40,808	13,789	54,597
6	Total Operating Expenses					681,902	13,789	695,692
7	Operating Income before Income Taxes					(42,782)	202,175	159,392
8	Interest Expenses					0	0	0
9	State taxable income					(42,782)	202,175	159,392
10	State income Tax	Less:						
11	less than \$25K	4.4%	25,000	25,000	25,000	0	1,100	1,100
12	Over \$25K, but less than \$100K	5.4%	75,000	75,000	75,000	0	4,050	4,050
13	Over \$100K	6.4%		102,175	59,392	0	6,539	3,801
14	State Income Taxes					0	11,689	8,951
15	Federal taxable income					(42,782)	190,486	150,441
16	Federal income tax							
17	less than \$50K	15.0%	50,000	50,000	50,000	0	7,500	7,500
18	Over \$50K, but less than \$75K	25.0%	25,000	25,000	25,000	0	6,250	6,250
19	Over \$75K, but less than \$100K	34.0%	25,000	25,000	25,000	0	8,500	8,500
20	Over \$100K, but less than \$335K	39.0%	235,000	90,486	50,441	0	35,289	19,872
21	Over \$335K	34.0%				0	0	0
22	Federal income Taxes					0	57,539	41,922
23	Total Federal and State income taxes					\$0	\$69,228	\$50,873
24	Effective Tax Rate					0.0000%	34.2417%	31.9168%
25	State					0.000%	5.782%	5.6157%
26	Federal					0.000%	28.460%	26.3011%

Hawaiian Beaches Water Company
Taxes Other Than Income Taxes
Test Year Ending December 31, 2010

Line #	Description	[1] Revenues at Present Rates	[2] Revenues at Proposed Rates	[3] Tax Rates	[4] Taxes at Present Rates	[5] Taxes at Proposed Rates
<u>Revenue Taxes</u>						
1	Public Service Company Tax	\$639,120	\$855,084	5.885%	\$37,612	\$50,322
2	(Pursuant to HRS § 239)					
3	Public Utility Fee	639,120	855,084	0.500%	3,196	4,275
4	(Pursuant to HRS § 269-30)					
5	Franchise Tax (applicable to electric companies only)			2.500%		
6	(Pursuant to HRS § 240)					
7	Total Revenue Taxes				<u>40,808</u>	<u>54,597</u>
<u>Other Taxes</u>						
8	Other Taxes					0
9	Total Other Taxes				<u>0</u>	<u>0</u>
10	Total Taxes Other Than Income Taxes				<u>\$40,808</u>	<u>\$54,597</u>

Hawaiian Beaches Water Company
Average Rate Base
Test Year Ending December 31, 2010

Line #	Description	[1]	[2]	[3]
		At Dec. 31, 2009	At Dec. 31, 2010	Average
1	Plant In Service	\$1,873,716	\$1,915,979	\$1,894,848
2	Accumulated Depreciation	<u>(333,051)</u>	<u>(433,861)</u>	<u>(383,456)</u>
3	Net Plant-in-Service	1,540,665	1,482,118	1,511,392
Deduct:				
4	Accumulated Deferred Income Taxes	(22,170)	(26,999)	(24,585)
5				
6	HCGETC	(48,813)	(47,446)	(48,129)
7	Customer Deposits	(11,462)	(11,462)	(11,462)
8	CIAC	<u>(136,760)</u>	<u>(130,186)</u>	<u>(133,473)</u>
9	subtotal	(219,204)	(216,093)	(217,649)
Add:				
10	Working Cash	46,071	46,071	46,071
11		0	0	0
12	subtotal	<u>46,071</u>	<u>46,071</u>	<u>46,071</u>
13	Subtotal	<u>\$1,367,531</u>	<u>\$1,312,095</u>	
14	Rate Base at Proposed Rates			<u>\$1,339,813</u>

Hawaiian Beaches Water Company
Rate Base Support
Test Year Ending December 31, 2010

<u>Rate Base @ Dec. 31, 2009</u>		[1]	[2]	[3]
Line #	Description	HBWC	Adjustments	Consumer Advocate Total
1	Plant In Service	\$1,873,716		\$1,873,716
2	Accumulated Depreciation	(333,051)		(333,051)
3	Net Plant-in-Service	1,540,665	0	1,540,665
Deduct:				
4				
5	Accumulated Deferred Income Taxes	(22,170)		(22,170)
6				
7	HCGETC	(48,813)		(48,813)
8	Customer Deposits	(11,462)		(11,462)
9	CIAC	(73,009)	(63,750)	(136,760)
10	subtotal	(155,454)	(63,750)	(219,204)
Add:				
11	Working Cash	46,071		46,071
12				0
13				
14				
15	subtotal	\$46,071	\$0	\$46,071
 <u>Rate Base @ Dec. 31, 2010</u>				
	<u>Description</u>	<u>HBWC</u>	<u>Adjustments</u>	<u>Total</u>
16	Plant In Service	\$1,915,979		\$1,915,979
17	Accumulated Depreciation	(433,861)		(433,861)
18	Net Plant-in-Service	1,482,118	0	1,482,118
Deduct:				
19				
20	Accumulated Deferred Income Taxes	(26,999)		(26,999)
21				
22	HCGETC	(47,446)		(47,446)
23	Customer Deposits	(11,462)		(11,462)
24	CIAC	(73,307)	(56,880)	(130,186)
25	subtotal	(159,214)	(56,880)	(216,093)
Add:				
26	Working Cash	46,071		46,071
27				0
28				
29				
30	subtotal	\$46,071	\$0	\$46,071

Hawaiian Beaches Water Company
Plant In Service
Test Year Ending December 31, 2010

Line #	Description	[1] Year Acquired	[2] Asset Life	[3] Balance as of 12/31/08	[4] 12/31/09 Additions	[5] 12/31/09 Retirements	[6] Adjustments	[7] Balance as of 12/31/09	[8] 12/31/10 Additions	[9] 12/31/10 Retirements	[10] Adjustments	[11] Test Year Balance as of 12/31/10
1	Structures	2007 & Prior		\$3,512				3,512				3,512
2	Structures	2008		2,919				2,919				2,919
3	Structures	2009						0				0
4	Wells	2009			697,055			697,055				697,055
5	Pumping Equipment	2007 & Prior		97,480				97,480				97,480
6	Pumping Equipment	2009						0				0
7	Pumping Equipment	2010						0				0
8	Water Treatment Equipment	2007 & Prior		25,626				25,626				25,626
9	Water Treatment Equipment	2008		420				420				420
10	Water Treatment Equipment	2009						0				0
11	Water Treatment Equipment	2010						0				0
12	Reservoirs & Tanks	2010			456,389			456,389				456,389
13	Mains	2007 & Prior		55,083				55,083				55,083
14	Meters & Services	2007 & Prior		176,464				176,464				176,464
15	Meters & Services	2008		210,208				210,208				210,208
16	Meters & Services	2009			50,000			50,000				50,000
17	Meters & Services	2010						0	35,263			35,263
18	Office & Shop Equipment	2007 & Prior		19,763				19,763				19,763
19	Office & Shop Equipment	2008		152				152				152
20	Office & Shop Equipment	2009			5,000			5,000				5,000
21	Office & Shop Equipment	2010						0	5,000			5,000
22	Transportation Equipment	2007 & Prior		52,613				52,613				52,613
23	Transportation Equipment	2008		6,500				6,500				6,500
24	Transportation Equipment	2009						0				0
25	Transportation Equipment	2010						0				0
26	Other Equipment	2008		4,532				4,532				4,532
27	Computer & Control Equip	2009			10,000			10,000				10,000
28	Other Equipment	2010						0	2,000			2,000
29	Total Plant in Service			\$655,272	\$1,218,444	\$0	\$0	\$1,873,716	\$42,263	\$0	\$0	\$1,915,979

Hawaiian Beaches Water Company
Accumulated Depreciation
Test Year Ending December 31, 2010

Line #	Description	[1] Year Acquired	[2] Asset Balance At 12/10	[3] Balance as of 12/31/08	[4] 12/31/09 Dep. Exp.	[5] 12/31/09 Retirements	[6] 12/31/09 Adjustments	[7] Balance as of 12/31/09	[8] 12/31/10 Dep. Exp.	[9] 12/31/10 Retirements	[10] Adjustments	[11] Test Year Balance as of 12/31/10
1	Structures	2007 & Prior	3,512	(\$3,512)	\$0			(3,512)	\$0			(3,512)
2	Structures	2008	2,919	(\$99)	(58)			(99)	(58)			(99)
3	Structures	2009	0		0			(58)	0			(116)
												0
4	Wells	2009	697,055	(35)	(8,713)			(8,748)	(17,426)			(26,174)
												0
5	Pumping Equipment	2007 & Prior	97,480	(69,453)	(9,748)			(79,201)	(9,748)			(88,949)
6	Pumping Equipment	2009			0			0	0			0
7	Pumping Equipment	2010	0		0			0	0			0
												0
8	Water Treatment Equipment	2007 & Prior	25,626	(25,926)	0			(25,926)	0			(25,926)
9	Water Treatment Equipment	2008	420	(4)	(8)			(12)	(8)			(20)
10	Water Treatment Equipment	2009			0			0	0			0
11	Water Treatment Equipment	2010	0		0			0	0			0
												0
12	Reservoirs & Tanks	2010	456,389		(11,410)			(11,410)	(22,819)			(34,229)
												0
13	Mains	2007 & Prior	55,083	(40,241)	(1,102)			(41,343)	(1,102)			(42,445)
												0
14	Meters & Services	2007 & Prior	176,464	(72,557)	(11,770)			(84,327)	(11,770)			(96,097)
15	Meters & Services	2008	210,208	(5,255)	(14,021)			(19,276)	(14,021)			(33,297)
16	Meters & Services	2009	50,000		(1,668)			(1,668)	(3,335)			(5,003)
17	Meters & Services	2010	35,263		0			0	(1,176)			(1,176)
												0
18	Office & Shop Equipment	2007 & Prior	19,763	(7,742)	(2,824)			(10,566)	(2,824)			(13,390)
19	Office & Shop Equipment	2008	152	(11)	(22)			(33)	(22)			(55)
20	Office & Shop Equipment	2009	5,000		(357)			(357)	(715)			(1,072)
21	Office & Shop Equipment	2010	5,000		0			0	(357)			(357)
												0
22	Transportation Equipment	2007 & Prior	52,613	(31,886)	(10,523)			(42,409)	(10,523)			(52,932)
23	Transportation Equipment	2008	6,500	(650)	(1,300)			(1,950)	(1,300)			(3,250)
24	Transportation Equipment	2009	0		0			0	0			0
25	Transportation Equipment	2010	0		0			0	0			0
												0
26	Other Equipment	2008	4,532	(453)	(453)			(906)	(906)			(1,812)
27	Computer & Control Equip	2009	10,000		(1,250)			(1,250)	(2,500)			(3,750)
28	Other Equipment	2010	2,000		0			0	(200)			(200)
29	Total Plant in Service		\$1,915,979	(\$257,824)	(\$75,227)	\$0	\$0	(\$333,051)	(\$100,810)	\$0	\$0	(\$433,861)

Hawaiian Beaches Water Company
Depreciation Expense (Book)
Test Year Ending December 31, 2010

Line #	Description	[1] Ref:	[2] In-service date	[3] Total Cost 12/31/10	[4] Depreciation Expense Rate	[5] Acc. Dep. Balance as of 12/31/08	[6] 2009 Depreciation Expense	[7] Acc. Dep. Balance as of 12/31/09	[8] 2010 Depreciation Expense	[9] Test Year Acc. Dep. Balance as of 12/31/10
	One-Half on 2009 Additions						50%			
	One-Half on 2010 Additions								50%	
1	Structures		2007 & Prior	\$3,512	2.00%	\$3,512		\$3,512		\$3,512
2	Structures		2008	2,919	2.00%	99	58	157	58	215
3	Structures		2009	0	2.00%	0	0	0	0	0
4	Wells		2009	697,055	2.50%	35	8,713	8,748	17,426	26,174
5	Pumping Equipment		2007 & Prior	97,480	10.00%	69,453	9,748	79,201	9,748	88,949
6	Pumping Equipment		2009	0	20.00%	0	0	0	0	0
7	Pumping Equipment		2010	0	20.00%	0	0	0	0	0
8	Water Treatment Equipment		2007 & Prior	25,626	2.00%	25,926	0	25,926	0	25,926
9	Water Treatment Equipment		2008	420	2.00%	4	8	12	8	20
10	Water Treatment Equipment		2009	0	5.00%	0	0	0	0	0
11	Water Treatment Equipment		2010	0	5.00%	0	0	0	0	0
12	Reservoirs & Tanks		2009	456,389	5.00%	0	11,410	11,410	22,819	34,229
13	Mains		2007 & Prior	55,083	2.00%	40,241	1,102	41,343	1,102	42,445
14	Meters & Services		2007 & Prior	176,464	6.67%	72,557	11,770	84,327	11,770	96,097
15	Meters & Services		2008	210,208	6.67%	5,255	14,021	19,276	14,021	33,297
16	Meters & Services		2009	50,000	6.67%	0	1,668	1,668	3,335	5,003
17	Meters & Services		2010	35,263	6.67%	0	0	0	1,176	1,176
18	Office & Shop Equipment		2007 & Prior	19,763	14.29%	7,742	2,824	10,566	2,824	13,390
19	Office & Shop Equipment		2008	152	14.29%	11	22	33	22	55
20	Office & Shop Equipment		2009	5,000	14.29%	0	357	357	715	1,072
21	Office & Shop Equipment		2010	5,000	14.29%	0	0	0	357	357
22	Transportation Equipment		2007 & Prior	52,613	20.00%	31,886	10,523	42,409	10,523	52,932
23	Transportation Equipment		2008	6,500	20.00%	650	1,300	1,950	1,300	3,250
24	Transportation Equipment		2009	0	20.00%	0	0	0	0	0
25	Transportation Equipment		2010	0	20.00%	0	0	0	0	0
26	Other Equipment		2008	4,532	20.00%	0	453	453	906	1,359
27	Computer & Control Equip		2009	10,000	25.00%		1,250	1,250	2,500	3,750
28	Other Equipment		2010	2,000	20.00%			0	200	200
29	Total Plant in Service			\$1,915,979		\$257,371	\$75,227	\$332,598	\$100,810	\$433,408

Hawaiian Beaches Water Company
HCGETC
Test Year Ending December 31, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Line #	Description	Depreciation Rate	Plant Additions	Plant Not Eligible	Net Plant For HCGETC	HCGETC Credits	Annual Amortization of HCGETC	Acc. Amort. Balance as of 12/31/08	2009 Amortization	Acc. Amort. Balance as of 12/31/09	2010 Amortization	Test Year Acc. Amort. Balance as of 12/31/10
						<u>4.0%</u>						
				<u>70.0%</u>								
2008 Plant Additions												
1												
2	Meters & Installations	6.67%	\$210,208	(\$147,146)	\$63,062	<u>\$2,522</u>	168	84	168	252	168	421
3	Total 2008					<u>\$2,522</u>						
2009 Plant Additions												
4	Meters & Installations	6.67%	\$50,000	(35,000)	\$15,000	600	40		20	20	40	60
5	Well	2.50%	\$697,055		\$697,055	27,882	697		349	349	697	1,046
6	Storage	5.00%	\$456,389		\$456,389	18,256	913		456	456	913	1,369
7	Pumping Equipment	20.00%	\$0		\$0	0	0		0	0	0	0
8	Water Treatment	5.00%			\$0	0	0		0	0	0	0
9	Office & Shop	14.29%	\$5,000		\$5,000	200	29		14	14	29	43
10	Other Equipment	20.00%	\$10,000		\$10,000	400	80		40	40	80	120
11	Total 2009					<u>47,338</u>						
2010 Plant Additions												
12	Meters & Installations	6.67%	\$35,263	(\$25,263)	\$10,000	400	27				13	13
13	Office & Shop	14.29%	\$5,000		\$5,000	200	29				14	14
14	Other Equipment	20.00%	\$2,000		\$2,000	80	16				8	8
15	Total 2010					<u>680</u>						
16	Total					<u>\$ 50,540</u>	<u>\$ 1,998</u>	<u>\$ 84</u>	<u>\$ 1,047</u>	<u>\$ 1,132</u>	<u>\$ 1,962</u>	<u>\$ 3,094</u>
17	Unamortized Balance at EOY							<u>\$ 2,438</u>		<u>\$ 48,813</u>		<u>\$ 47,446</u>

Hawaiian Beaches Water Company
Accumulated Deferred Income Taxes
Test Year Ending December 31, 2010

Line #	Description	[1] Year Acquired	[2] Asset Tax Life	[3] Total Cost At 12/31/10	[4] Tax Depreciation Method	[5] Acc. Tax Dep. Balance as of 12/31/08	[6] Tax Depreciation 2009	[7] Adjustments 2009	[8] Acc. Tax Dep. Balance as of 12/31/09	[9] Tax Depreciation 2010	[10] Adjustments 2010	[11] Test Year Acc. Tax Dep. Balance as of 12/31/10
1	Structures	2007 & Prior		3,512		18	0		18			18
2	Structures	2008		2,919		28	0		28	0		28
3	Structures	2009		0					0			0
4	Wells	2009		697,055			0		0	0		0
5	Pumping Equipment	2007 & Prior		97,480		62,423	0		62,423	0		62,423
6	Pumping Equipment	2009		0			0		0	0		0
7												
8	Water Treatment Equipment	2007 & Prior		25,626		25,029	0		25,029	0		25,029
9	Water Treatment Equipment	2008		420		221	0		221	0		221
10	Water Treatment Equipment	2009		0			0		0	0		0
11	Water Treatment Equipment	2010		0					0			0
12	Reservoirs & Tanks	2009		456,389			0		0	0		0
				0					0			0
13	Mains	2007 & Prior		55,083		38,296	0		38,296	0		38,296
14	Meters & Services	2007 & Prior		176,464		56,439	0		56,439	0		56,439
15	Meters & Services	2008		210,208		110,657	0		110,657	0		110,657
16	Meters & Services	2009		50,000		0	0		0	0		0
17	Meters & Services	2010		35,263			0			0		0
18	Office & Shop Equipment	2007 & Prior		19,763		5,074	0		5,074	0		5,074
19	Office & Shop Equipment	2008		152		80	0		80	0		80
20	Office & Shop Equipment	2009		5,000			0		0	0		0
21	Office & Shop Equipment	2010		5,000			0		0	0		0
22	Transportation Equipment	2007 & Prior		52,613		25,694	0		25,694	0		25,694
23	Transportation Equipment	2008		6,500		2,275	0		2,275	0		2,275
24	Transportation Equipment	2009		0					0			0
25	Transportation Equipment	2010		0					0			0
26	Other Equipment	2008		4,532		2,386	0		2,386	0		2,386
27	Computer & Control Equip	2009		10,000			0		0	0		0
28	Other Equipment	2010		2,000					0	0		0
29	Other Tax Depreciation					800	0		800	0		800
30	Needed to Balance Tax Depr At 12-31-06					0	0		0	0		0
31	Tax Depr on Plant Pre 2008					8,330	0		8,330	0		8,330
							83,401		83,401	120,000		203,401
32	TOTAL			\$1,915,979		\$337,750	\$83,401	\$0	\$421,151	\$120,000	\$0	\$541,151
33	Accumulated Book Depreciation					257,824			333,051			433,861
34	Excess Tax Over (Under) Book					79,926			88,100			107,290
35	Composite Income Tax Rate					25.164%			25.164%			25.164%
36	ADIT Balance					\$20,113			\$22,170			\$26,999

Hawaiian Beaches Water Company
CIAC
Test Year Ending December 31, 2010

		[1]	[2]	[3]	[4]
Line #	Description	Rate Or Factor	Amount	Total CIAC	Unamortized CIAC
1	<u>Balance At 12-31-06 (Settlement)</u>				\$44,576
2	CIAC Prior To 12-31-06			\$68,505	
3	CIAC in 2007	\$1,500	56	84,000	\$84,000
4	Amortization of CIAC @ 12-06	6.7%	\$4,569		
5	Amortization of 2007 CIAC	6.7%	\$2,801		
6	2007 Amortization				7,371
7	<u>Balance At 12-31-07</u>			152,505	121,205
8	CIAC in 2008	\$1,500	18	27,000	27,000
9	Amortization of CIAC @ 12-06	6.7%	\$4,569		
10	Amortization of 2007 CIAC	6.7%	\$5,603		
11	Amortization of 2008 CIAC	6.7%	\$900		
12	2008 Amortization				11,073
13	<u>Balance At 12-31-08</u>			\$179,505	\$137,133
14	CIAC in 2009	\$1,500	8	12,000	12,000
15	Amortization of CIAC @ 12-06	6.7%	\$4,569		
16	Amortization of 2007 CIAC	6.7%	\$5,603		
17	Amortization of 2008 CIAC	6.7%	\$1,801		
18	Amortization of 2009 CIAC	6.7%	\$400		
18	2009 Amortization				12,373
19	<u>Balance At 12-31-09</u>			\$191,505	\$136,760
20	CIAC in 2010	\$1,500	4	6,000	6,000
21	Amortization of CIAC @ 12-06	6.7%	\$4,569		
22	Amortization of 2007 CIAC	6.7%	\$5,603		
23	Amortization of 2008 CIAC	6.7%	\$1,801		
24	Amortization of 2009 CIAC	6.7%	\$400		
	Amortization of 2010 CIAC	6.7%	\$200		
25	2010 Amortization				12,573
24	<u>Balance At 12-31-10</u>			\$197,505	130,186

Hawaiian Beaches Water Company
Working Cash
Test Year Ending December 31, 2010

[1]

Line #	Description	Amount
1	Purchased Electricity	104,400
2	Salaries & Wages	222,477
3	Employee Benefits & PR Taxes	57,377
4	Accounting	14,000
5	Insurance	31,604
6	Auto & Truck Expense	15,000
7	Postage	6,000
8	Legal & Professional	2,000
9	Communications	6,400
10	Office Supplies Expense	23,400
11	Rate Case Amortization	69,800
12	Repair & Maintenance	4,400
13	Bad Debt Expense	0
14	Capitalized Non-Payroll Expenses	(4,000)
15		
16		
17	subtotal	552,858
18	Working Cash factor	12
19	Working Cash	46,071

HAWAIIAN BEACHES WATER COMPANY, INC.
Test Year Ended December 31, 2010
Excess Capacity

HBWC System Capacity

Pumpage	Pump (gpm)
Well #3185-01	550
Well #3185-03	625
Total Pumpage	1,175
2009 Average Day Demand	Based on historical water usage
2009 Total Water Usage (000 gallons) (Based on test year monthly water usage of 9,685,098 gallons)	116,221
Unaccounted Water Factor	10.0%
2009 Total Water Pumped (000 gallons)	127,843
Average Daily Demand (gpd) (based on 400 gpd for residential units x 1,103 average units)	441,200.00
Maximum Daily Demand (gpd) Maximum Daily Demand equals Average Daily Demand times 1.5 (Factor used by the County of Hawaii Department of Water)	661,800.00
	Capacity (mgd)
Pumpages less largest pump	0.792
Maximum Daily Demand	0.662
Percent of Capacity Used and Useful	83.56%
Percent of Excess Capacity	16.44%

Hawaiian Beaches Water Company
Salaries & Wages
Test Year Ending December 31, 2010

Line #	Description	Ref:	[1] 2007 # 2006-0442 Settlement	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] Present Rates Test Year 12/31/10
<u>Salaries & Wages</u>						
1	Salaried		\$110,528	\$96,640	\$127,800	\$123,476
2	Hourly		\$67,736	\$93,886	\$79,840	\$94,286
3	Overtime and Callout	5.0%				\$4,714
4	Total Payroll		<u>\$ 178,264</u>	<u>\$ 190,526</u>	<u>\$ 207,640</u>	<u>\$ 222,477</u>
5	Wage Increase Dates					
6	Percent Increase in base wages					
7	Total for 6 employees from Workpaper HBWC 10.1					\$238,588
8	Charged to Construction	WP 10.1	Salaried		15.0%	(8,158)
9	Charged to Construction	WP 10.1	Hourly		15.0%	(12,667)
10	Overtime & Callout	L 3	Hourly			4,714
10	Total Test Year Expense					<u>\$222,477</u>

Note: The difference in the 2007 and 2008 year-end salaries and wages are a result of the different capitalization factors for those years.

Hawaiian Beaches Water Company
Employee Benefits & PR Taxes
Test Year Ending December 31, 2010

Line #	Description	[1] [2] [3] [4] [5] [6] [7]					
		2007 # 2006-0442	Year Ended 12/31/07	Year Ended 12/31/08	5-Months Ended 5/31/09	7-Months Ended 12/31/09	Present Rates Test Year 12/31/10
1	Total Expense	\$38,792	\$26,395	\$25,722	\$13,000	\$17,000	\$30,000
2	Test Year Expense						\$ 57,377
				# of Empl			
FICA TAX EXPENSE							
3	Total Test Year S & W				\$ 222,477		
4	Test Year S & W over Maximum				0		
5	Taxable Test Year S & W	L 3 - L 4			\$ 222,477		
6	Tax Rate					7.650%	
7	Test Year FICA Taxes						\$ 17,019
FEDERAL UNEMPLOYMENT INSURANCE							
8	Total Test Year S & W				\$ 222,477		
9	Test Year S & W over Maximum		\$ 7,000		(180,477)		
10	Taxable Test Year S & W	L 8 + L 9			\$ 42,000		
11	Tax Rate			6		0.800%	
12	Test Year FUI Taxes						336
STATE UNEMPLOYMENT INSURANCE							
13	Total Test Year S & W				\$ 222,477		
14	Test Year S & W over Maximum		\$ 4,000		(198,477)		
15	Taxable Test Year S & W	L 13 + L 14			\$ 24,000		
16	Tax Rate			6		0.400%	
17	Test Year SUI Taxes						96
TDI							
18	Total Test Year S & W				\$ 222,477		
19	Test Year S & W over Maximum		\$ 3,000		(204,477)		
20	Taxable Test Year S & W	L 18 + L 19			\$ 18,000		
21	Tax Rate			6		0.460%	
22	Test Year TDI Taxes						83
EMPLOYEE BENEFITS							
			Monthly Expense Per Employee		No. Of Months	Annual Cost	
23	HMSA Rate - Single Coverage	7-1-09 Rate	\$407.50	4	12	\$ 19,560	
24	HMSA Rate - 2 Party Coverage	7-1-09 Rate	\$804.80	1	12	9,658	
25	HMSA Rate - Family Coverage	7-1-09 Rate	\$1,202.10	1	12	14,425	
26	Increase At 7-1-10		7.74%		6	1,688	
27	Other						
28	TOTAL BENEFITS	Sum L 23 to L 26					45,331
29	Sub-Total						62,865
30	Total Benefits and PR Tax						
CHARGE TO CONSTRUCTION							
31	Payroll to Construction	Exh 10.1			\$20,825		
32	Total Payroll	Exh 10.1			\$ 238,588		
33	Percent Expensed	L 31 / L 32				8.73%	
34	Benefits & PR Taxes Capitalized	L 29 * L 33					\$ (5,488)
35	TOTAL	L 29 + L 34					\$ 57,377

Hawaiian Beaches Water Company
Rate Case Amortization
Test Year Ending December 31, 2010

		[1]		[2]	
Line #	Description	Ref:	Amount	Test Year	
<u>PREPARATION AND FILING</u>					
1	Rate case consulting				
2	Legal				
3	Travel				
4	Other non-labor				
5	subtotal			64,600	*actual (response to CA-IR-17)
<u>DISCOVERY AND SETTLEMENT</u>					
6	Rate case consulting		25,000		
7	Legal		50,000		
8	Travel		0		
9	Other non-labor		0		
10	subtotal			75,000	
<u>HEARINGS AND BRIEFING</u>					
11	Rate case consulting		0		
12	Legal		0		
13	Travel		0		
14	Other non-labor		0		
15	subtotal			0	
16	Total			139,600	
17	Total to be Recovered			139,600	
18	Amortization Period			2	
19	Test Year expense			\$69,800	

Hawaiian Beaches Water Company
Test Year Ending December 31, 2010
PRO FORMA REVENUE CALCULATIONS - Customer Monthly Charge

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
Line #	Description # in Gallons	Reference Or Factor	Number Of Customers	Average Monthly Usage Per Customer (000) gal	PRESENT RATES		Monthly Customer Charge Revenue	Monthly Usage Revenue	Number of Months	PROPOSED RATES			Percent Increase Decrease
					Monthly Customer Charge Revenue	Annual Customer Charge Revenue				Customer Charge	Usage Charge	Total	
					<u>\$48.06</u>	<u>12</u>	<u>\$30.00</u>	<u>\$3.9001</u>					
<u>CUSTOMERS AT 9-30-09</u>													
1	Customers Using 0 to 1,000		80	0.422	\$ 3,845	\$ 46,140	\$ 2,400	\$ 132	12	\$ 28,800	\$ 1,584	\$ 30,384	-34.2%
2	Customers Using 1,001 to 5,000		326	2.988	15,668	188,016	9,780	3,799	12	117,360	45,588	162,948	-13.3%
3	Customers Using 5,001 to 10,000		412	7.215	19,801	237,612	12,360	11,593	12	148,320	139,116	287,436	21.0%
4	Customers Using 10,001 to 15,000		157	12.166	7,545	90,540	4,710	7,449	12	56,520	89,388	145,908	61.2%
5	Customers Using 15,001 to 25,000		90	18.617	4,325	51,900	2,700	6,535	12	32,400	78,420	110,820	113.5%
6	Customers Using over 25,000		35	60.540	1,682	20,184	1,050	8,264	12	12,600	99,168	111,768	453.8%
7			<u>1,100</u>	<u>9.685</u>	<u>52,866</u>	<u>634,392</u>	<u>33,000</u>	<u>37,772</u>		<u>396,000</u>	<u>453,264</u>	<u>849,264</u>	<u>33.9%</u>
<u>ADDITIONAL CUSTOMERS TO 12-31-09</u>													
8	Customers Using 5,001 to 10,000		0	7.215	0	0	0	-	12	-	-	-	
9	Customers Using 10,001 to 15,000		1	12.166	48	576	30	47	12	360	564	924	60.4%
10	Customers Using 15,001 to 25,000		0	18.617	0	0	0	-	12	-	-	-	
<u>ADDITIONAL CUSTOMERS TO 12-31-10</u>													
11	Customers Using 5,001 to 10,000		1	7.215	48	288	30	28	6	180	168	348	20.8%
12	Customers Using 10,001 to 15,000		2	12.166	96	576	60	95	6	360	570	930	61.5%
13	Customers Using 15,001 to 25,000		1	18.617	48	288	30	73	6	180	438	618	114.6%
14	TOTAL ALL		<u>1,105</u>	<u>37.2</u>	<u>\$ 53,106</u>	<u>\$ 636,120</u>	<u>\$ 33,150</u>	<u>\$ 38,015</u>		<u>\$ 397,080</u>	<u>\$ 455,004</u>	<u>\$ 852,084</u>	<u>34.0%</u>
15	Total Average Customers		<u>1,103</u>	<u>9,722.3</u>									
16	Other Revenue					<u>3,000</u>						<u>3,000</u>	
17	TOTAL REVENUE					<u>\$ 639,120</u>						<u>\$ 855,084</u>	<u>\$ 215,964</u>

Docket No. 2009-0161

CA-WP-103

contains confidential information

and is being submitted under separate cover

pursuant to Protective Order Filed on August 13, 2009

Docket No. 2009-0161

CA-WP-107

contains confidential information

and is being submitted under separate cover

pursuant to Protective Order Filed on August 13, 2009

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S DIRECT TESTIMONY, EXHIBITS, AND WORKPAPERS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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DATED: Honolulu, Hawaii, October 27, 2009.


